

Message Text

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13

ACTION NEA-16

INFO OCT-01 EUR-25 ISO-00 CIAE-00 DODE-00 PM-07 H-03

INR-11 L-03 NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03

SS-20 USIA-15 AID-05 COME-00 EB-12 FRB-03 TRSE-00

XMB-07 OPIC-12 CIEP-03 LAB-06 SIL-01 OMB-01 DRC-01

FEA-02 /170 W

----- 012311

R 050737Z OCT 74

FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC 1125

INFO AMEMBASSY ABU DHABI

AMEMBASSY BEIRUT

AMEMBASSY DOHA

AMEMBASSY JIDDA

AMEMBASSY LONDON

AMEMBASSY MANAMA

USMISSION OECD PARIS

AMEMBASSY TEHRAN

UNCLAS KUWAIT 4299

DEPARTMENT PASS TREASURY

EO 11652: NA

TAGS: EFIN KU

SUBJ: POSSIBLE INCREASE IN KUWAIT DINAR LENDING

REF: KUWAIT 3521 (NOTAL)

1. REFTEL DESCRIBED CURRENT BANKING AND FINANCIAL CONDITIONS WHICH HAVE RESULTED IN CREDIT SQUEEZE HERE. COMBINATION OF INFLATION, SHORTAGE OF KEY SUPPLIES SUCH AS CEMENT AND BUILDING MATERIALS AND VIRTUAL UNAVAILABILITY OF KUWAITI DINAR CREDIT BEGINNING TO COOL OFF OTHERWISE BOOMING KUWAITI ECONOMY. IN CRITICAL LOCAL CONSTRUCTION SECTOR, FOR EXAMPLE, BUILDING
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LICENSES ARE DOWN FROM 1384 ISSUED DURING FIRST EIGHT MONTHS

1973 TO 945 FOR SAME PERIOD THIS YEAR. SIMILARLY, LOCAL STOCK MARKET VERY QUIET FOLLOWING MEASURES TAKEN EARLIER THIS YEAR TO DAMPEN SPECULATIVE MOOD THAT EXISTED THIS SPRING.

2. THERE ARE INDICATIONS GOK WILL TAKE STEPS SOON TO REVIVE ECONOMY. APPEARS GREEN LIGHT WILL BE GIVEN ORGANIZERS OF SEVERAL NEW COMPANIES INCLUDING INVESTMENT COMPANIES. MORE SIGNIFICANTLY MANY PEOPLE IN FINANCIAL COMMUNITY HERE EXPECT GOK TO INCREASE SUPPLY OF KUWAITI DINARS (KD) THROUGH DEPOSITS IN LOCAL COMMERCIAL BANKS. FYI GOK NOT RPT NOT SIGNIFICANT DEPOSITOR IN LOCAL COMMERCIAL BANKS. END FYI. WE HAVE HEARD THAT AS MUCH AS KD 100 MILLION (KD1 EQUALS \$3.38) MAY BE PUMPED INTO SYSTEM IN THIS MANNER. IN ADDITION LEGAL INTEREST LIMIT ON LOANS MAY BE INCREASED FROM 7 PERCENT TO 8 PERCENT.

3. COMMENT: SO FAR THERE NO HARD EVIDENCE THAT ANY OF ABOVE STEPS WILL BE TAKEN, BUT WE BELIEVE THERE GOOD CHANCE THAT THEY WILL BE. OCCURS TO US THAT US AND OTHER FOREIGN BORROWERS MAY BE ATTRACTED BY RELATIVELY LOW INTEREST RATES. UNTIL NOW THERE SIMPLY WERE NOT ENOUGH KDS TO CONSIDER LENDING IN THAT CURRENCY, WHICH LOCAL BANKS WOULD PREFER BECAUSE FOREIGNERS WHO BORROW IN KD EFFECTIVELY TAKE ON EXCHANGE RISKS. BEFORE LONG, HOWEVER LEVEL OF LOCAL KD LENDING TO FOREIGN BORROWERS COULD INCREASE SUBSTANTIALLY.
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